

Message Text

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ACTION EA-13

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C O N F I D E N T I A L MANILA 13037

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, RP

SUBJECT: GOP DISCUSSIONS WITH U.S. OIL COMPANIES ON REFINERY

TAKE-OVER

REF: MANILA 12955

1. PROPOSED GOP ACQUISITION OF BATAAN REFINERY CORP. (BRC) HAS BEEN SUBJECT OF INTENSE GOP DISCUSSIONS WITH ESSO AND MOBIL PAST SEVERAL DAYS, AND SPOTLIGHT HAS BEEN PUT ON MOBIL WHICH HAS RIGHT OF FIRST REFUSAL OF ANY CONTRACT FOR SALE OF ESSO SHARES. FOLLOWING MEETING BETWEEN GOP AND OIL COMPANY OFFICIALS, EXEC SECY MELCHOR WROTE LETTER NOV 16 TO MOBIL MANAGER WALES STATING IT IS GOP INTENTION TO ACQUIRE MOBIL'S INTEREST IN BRC. LETTER REFERRED TO WALES' STATEMENT DURING MEETING THAT MOBIL WOULD NOT UNREASONABLY THWART GOP DESIRE TO ACQUIRE REFINERY. MELCHOR ADDED THAT HE HAD BEEN INFORMED BY SAUDI AMBASSADOR THAT SAUDI GOVERNMENT WOULD NOT PROVIDE NECESSARY CRUDE SUPPLY AS LONG AS THERE WAS AN AMERICAN INTEREST IN REFINERY TO PROCESS CRUDE.

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2. IN SUBSEQUENT DISCUSSION WALES INDICATED TO

MELCHOR HE WAS GREATLY DISTURBED BY GOP POSITION, POINTING OUT THAT (A) MOBIL HAD NOT AGREED TO WAIVE RIGHT OF FIRST REFUSAL AND COULD NOT DO SO UNTIL TERMS OF SALE CONTRACT WERE KNOWN; AND (B) THERE HAD BEEN NO INDICATION OR DISCUSSION OF TERMS UNDER WHICH GOP WOULD "ACQUIRE" MOBIL'S INTEREST IN BRC. (WALES COMMENTED TO EMBOFF THAT WORD "PURCHASE" WAS NOT USED AND THAT MOBIL HAS NOT YET MADE CAREFUL STUDY OF POSSIBLE EQUITY SALE.)

3. MELCHOR TOLD WALES GOP WOULD NOT "PUSH" MOBIL AND SAID FON SECY ROMULO WILL SEEK CLARIFICATION OF SAUDI POSITION ON SUPPLY OF CRUDE. (WALES DOUBTS THAT SUCH STRINGENT CONDITION FOR GOVERNMENT CRUDE SALE IS APPLIED IN OTHER PARTS OF WORLD.)

4. ACCORDING TO ESSO MANAGER WALLACE, CONTRACT DRAFTED OVER WEEKEND WILL BE FOR CASH SALE OF ALL ESSO ASSETS INCLUDING 57 PERCENT INTEREST IN BRC. HE SAID ESSO HAS SET LOW PRICE FOR ASSETS BUT NOTED CRITICAL ELEMENT OF CONTRACT IS CRUDE SUPPLY ARRANGEMENT. ESSO REPORTEDLY IS READY TO OFFER CRUDE SUPPLY (POSSIBLY FOR THREE YEARS) ON MORE ATTRACTIVE TERMS THAN COMPANY OFFICIALS EARLIER THOUGHT POSSIBLE (MANILA 12753). WE KNOW THAT ESSO IS SEEKING MANAGEMENT CONTRACT AND THAT POSSIBILITY OF SIMILAR CONTRACT FOR MOBIL WILL BE A KEY FACTOR IN MOBIL DECISION WHETHER OR NOT TO RETAIN MINORITY SHARE HOLDING IN BRC. WALES STATES MOBIL WOULD NOT BE WILLING TO SELL REFINERY SHARES AND RETAIN ONLY DISTRIBUTION AND MARKETING OPERATIONS. THUS SALE OF REFINERY SHARES WOULD MEAN SALE OF ALL MOBIL ASSETS.

5. IN VIEW OF MANY UNCERTAINTIES, IT NOT CLEAR HOW SOON GOP CAN COMPLETE ACQUISITION OF MAJORITY OR FULL OWNERSHIP OF REFINERY. INDUSTRY SECRETARY PATERNO HAS REPORTEDLY BEEN NAMED PRESIDENT OF PHILIPPINE NATIONAL OIL COMPANY WHICH WILL BE ENTITY TO ACQUIRE BRC AND ENTER INTO CRUDE SUPPLY ARRANGEMENTS. ACCORDING TO WALLACE, GOP OFFICIALS ARE MOST ANXIOUS TO COMPLETE REFINERY ACQUISITION WITH IN NEXT WEEK OR TWO AND ARE LIKELY TO PUT PRESSURE ON MOBIL FOR EARLY DECISION.
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